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Schiff, Jacob Henry

Currency and other reform

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CURRENCY AND OTHER REFORM

AN ADDRESS
DELIVERED BY

JACOB H. SCHIFF

At the Annual Meeting and Banquet
of the Illinois Manufacturers' Association
at Chicago, December 11, 1906

Mr. Chairman, Honored Hosts!

I feel highly complimented by the invitation you have extended to me to address you at this, your annual meeting. Aware, that your Association is one of the most influential commercial and industrial organizations of the Middle West, I have willingly accepted your courtesy, for I desire to meet the men, who, to so great an extent, are among the potent factors, making for the prosperity of our country and for its commercial supremacy. To present to you my views—for what these may be worth—upon some of the great questions and problems of the day, upon the right solution of which our own weal and the happiness of those coming after us, may depend to a considerable extent, is, I feel, an opportunity, I must not permit to pass.

By early training I am a banker. When, almost half a century ago, I first began to earn my spurs, the banker was considered somewhat above the ordinary. Of late, however, the prestige he has enjoyed is somewhat on the wane, because of the prejudice which now induces people to look with suspicion upon all things financial, particularly so long as these things do not improve their own financial status. The fact is, however, the banker, who respects himself and wishes to be respected, must not nowadays rest upon his laurels; he must do active mind and other work, without reference to an eight-hour day. Personally, I may say, in all modesty, that my own mind is at all times considerably occupied with the problems which existing conditions bring upon us, and for a considerable time I have given much thought to the question of the currency. As a consequence, the conclusion has forced itself upon me, as it has upon others, that the problem of the improvement of our circulating medium should claim the earnest thought of experienced men, imbued

with the desire to render service to the country, and, following your invitation, I am with you this evening to speak to you of some of the considerations which have presented themselves to me.

Not that I shall likely be able to tell you very much that will be new to you, but when so much is being said, written and printed in regard to the currency, which is wide from the proper mark, when so many National Bankers of weight and influence, who prosper under the special opportunities present conditions make for them, oppose every proposition for a change and will look only upon suggestions for an improvement in the circulating medium, from the point of view of their own direct interests, it may perhaps not be for naught to tell you, who are not bankers, but who represent a class, which, as I believe, suffers as much as any of the large interests of the country from prevailing conditions, how simple of solution the entire problem would be if common sense and unselfishness would alone be permitted to dictate the remedy.

There is nothing intricate in the bank-note problem. Let us take your own case. You are manufacturers; you have a certain capital, which is invested in your plants, and you also have, to a greater or lesser extent, a certain amount of working capital. To make and finish your product you frequently need additional capital, which you have to borrow temporarily, for repayment after you have marketed your goods. To obtain this, you go to your Banker, who is willing to accommodate you; but while his capital may be large, he has many dealers to whom he must lend, and for this, his own actual resources do not suffice. He deals, however, not only in money, but also in credit and he will say to you, or ought to be in a position to say to you, I cannot give you actual money, gold or legal tender notes; this, as far as I can prudently part from it, I have already loaned out, but what I can do is to give you my own notes, acceptable everywhere as money, because it is known that they will be re-

deemed by me upon presentation. As this serves your purpose, you accept a loan of the Banker's notes, and after you have marketed your goods, you pay your debt to the Banker, who in turn with the money received from you withdraws his own circulating notes and cancels them. This is all there is, or should be, to a bank-note, if we divest the problem of the economic principles which underlie it and which in issuing notes need to be carefully looked after, to make bank-note circulation safe beyond any peradventure. We have, however, in the last four decades drifted far from the simple and straight path, have resorted to every kind of makeshift and heresy, and are calling these idols—money. We began by permitting the non-interest bearing obligations of the Government to continue in circulation, as legal tender, long after the necessity for so unjustifiable a circulating medium had passed. We enlarged upon this, under the stress of the Civil War, by permitting the banks to buy the bonds of the Government and, on the basis of these holdings, to issue a circulating medium, in its character of advantage to no one, except to the Government, which does not need this aid and which ought not by such means obtain loans at rates of interest, not commensurate with the real value of money, and to the Banks, who gain the interest upon the Government Bonds they acquire and deposit as a basis for their circulation. How you, as manufacturers, or the trader or the agricultural producer are helped by these uneconomic, crude and unjustified methods of creating a circulating medium, is a question which few will be able to answer satisfactorily. But false gods, enthroned through mistaken beliefs, seldom become dethroned again, except by the slow process of education and the resulting enlightenment. Unfortunately, it is quite certain, notwithstanding the enervating suffering these economically wrong appliances subject us to, the attempt to dispense with them and to substitute a circulating-note system economically sound, would

likely meet with such considerable opposition that it will for the present prove almost useless to make the effort.

Under these circumstances it will be well enough if at least a beginning be made in the right direction, and toward such a beginning the propositions embraced in the recent report of a special committee of the New York Chamber of Commerce, and which I would commend to your attention and study—point the way.

This proposition, in some essential details, appears considerably preferable to the plan framed by the American Bankers' Association Committee, recently published. Under the New York plan, we shall obtain a circulating medium, which, because of the graduated tax upon circulation it embodies, will possess elements of elasticity which, under the Bankers' Association plan, will be found wanting. The latter, in its present form, simply amounts to an expedient by which the Banks acquire the power to secure funds at a cost of about $3\frac{1}{2}$ per cent. interest. If you leave it to the Banks to issue circulating notes at a fixed tax of $2\frac{1}{2}$ per cent., which plus the expense to maintain a reserve as proposed and the cost of the redemption, will make the total interest cost about $3\frac{1}{2}$ per cent., you will have, because of this fixed cost, a circulating medium, which, I fear, will prove more rigid and irresponsible than anything we now have. Solely through the imposition of a carefully graduated tax, not too low in its minimum and rapidly advancing upon the issue of increasing amounts of circulating notes, can we obtain the elasticity which is needed. It is most regrettable that the Bankers' Association Committee, with the New York Chamber of Commerce's proposition before it, rejected the very wise provision for a graduated tax; it proves only once more, that we shall never succeed in obtaining practicable currency reform until the Banks learn to understand, that while no one will begrudge them a legitimate, reasonable profit, currency reform must primarily follow lines, which will be certain to meet, in a

sound manner, the requirements of the material interests of the Country, represented in its agriculture, its industry and its commerce. Leaving aside and correcting this most fatal defect in the Bankers' Association plan, there is much to recommend it, though personally I hold strongly to the opinion that it will prove unwise, if not dangerous, to clothe six thousand Banks or more with the privilege to issue independently a purely credit currency, no matter how complete the safeguards may appear proposed to be thrown around the exercise of the privilege. A single default in prompt redemption will be likely to create prejudice against the entire volume of the outstanding credit currency, with consequences so serious that no chance, however remote, ought to be permitted to be taken in this respect. This risk can readily become removed if the National Banks, who in the first instance will become the beneficiaries of legislation authorizing the issue of credit currency, shall themselves, as a body, assume any eventuality by becoming jointly responsible for all the credit currency which passes into the hands of the people, instead of the latter assuming a risk to which, however remote it may be, they should not become subjected.

The establishment of a great Central Bank, which has been suggested, is with the past experience in the two Banks of the United States, still vividly in the mind of the people, not an attainable project. The prejudice against the concentration of large funds, with the political and other power this is certain to produce, has increased and not diminished, nor would the several thousand National Banks be willing to surrender their valuable privileges as Government depositaries and bank-note issuers to a central institution. It should, however, with appropriate legislation for authorizing the creation of an asset-currency upon some such plan as has been proposed be practicable to establish a Central Association of the National Banks which is to possess no other function than to issue to the Banks in the Association

the Circulating Notes to which, under the stipulations and restrictions the law is to impose, they shall be entitled. If I should be asked how such an association is to be administered my answer will be that this could best be accomplished through a governing body consisting of forty-six National Bankers under the Chairmanship of the Comptroller of the Currency. The members of this governing body should be appointed by the President of the United States at stated periods, one from each State. Membership in such a body would be a civic honor, well worth while the aspiration of the best minds of our National Bankers. With the system and supervision which such an Association can so well provide it will be practicable to create an economically sound and, because of the joint liability of the Banks, everywhere acceptable circulating medium that will readily expand and contract with the demands of trade and commerce. Both excessive and unsound superabundance of money, as well as unjustified scarcity, such as we are now witnessing and which, if permitted to run into extremes, cannot but become inimical to the prosperity of the country, can thus become prevented.

In the limited space of time I have the privilege to claim from you I cannot well attempt to give, as I have just done, more than an outline of the fatal conditions under which we are laboring and of the remedy which it appears practicable to apply, but the comparatively little I have said would be incomplete did I not also point out the defects in our existing Treasury system and its management, the drawbacks to which are so forcibly illustrated by the present situation in the money market.

Under the law the revenues of the Government have either to be covered into the Treasury or they may be deposited in part with the National Banks at the instance of the Secretary of the Treasury. This immense discretionary power has been exercised by successive Secretaries with varying prudence and ability, and, I should add, in the

forty years of my own business experience no Secretary of the Treasury has shown in this respect more common sense and foresight than the present occupant of this high office. But it cannot be expected that the judgment of a single mind can be infallible, and placing, as is the case, into the hands of one man the power to be the arbiter of the material welfare of the entire country, this, with the best intentions, through the least error of judgment on the part of the Secretary of the Treasury may become jeopardized to a degree the extent of which we shall never be in a position to ascertain.

Nothing is so greatly to be deprecated than the ever-recurring withdrawal of a large part of the country's capital from its useful purposes into the United States Treasury and the so-called assistance to the money market by the Secretary of the Treasury which this necessitates. The over-night announcements of relief the Secretary of the Treasury is in the habit of making are neither good finance nor fruitful of good results to the material interests of the country; but these sudden announcements from Washington, to which we have become accustomed, are only the consequence of more undesirable, almost barbarous methods, which existing laws have called forth. The sole but imperative remedy for this is the enactment of legislation providing that the revenues of the Government, which, after all, are nothing but part of the working capital of the country, shall, as fast as they are collected, be deposited with the National Banks in proper proportion to their capital, upon such actual security as may be acceptable to the Secretary of the Treasury and upon the payment of a uniform rate of interest, likewise to be determined by the Secretary. If this be done, the country will at all times understand what it has to deal with without having to look constantly Washingtonward to depend upon a single man and mind for the regulation of the money supply. With a sound elastic circulating medium and the situation otherwise

left to natural conditions trade and commerce will find itself protected against many of the financial difficulties under which we suffer at all times to a lesser or greater degree, not less in the periodical superabundance of money than in times of severe scarcity or in the panics which come upon us at greater but certain intervals. Not until these conditions become remedied will the United States become financially and commercially independent and supreme, a position which our natural resources as well as the energy and ability of our people should have long ago assured us. Who can compute the *actual* losses and moral setbacks we have suffered since the close of the Civil War because of our clumsy and deficient financial methods? Had we then set our house resolutely and properly in order, instead of continuing and inventing all sorts of makeshifts, which at best act but as palliatives, who knows how much suffering we might have been saved in these four decades. We have during this period had not alone two financial panics of the first magnitude, with some ten years of enervating depression immediately following the panics of 1873 and 1893, but have moreover been unable, as a Nation, to gain the international financial leadership which has been several times within our grasp. I can only repeat, it is by no means the Banker who suffers under the prevailing conditions, but rather the manufacturer, the farmer and the merchant. You know not today what in a monetary sense the morrow may bring; you base the initial arrangements for your business affairs upon ordinary financial conditions, and before you get through you are compelled to pay exorbitant rates for the accommodation you require, if you can obtain it at all. Instead of possessing a circulating medium which can adapt itself to the business of the country, the business of the country has, as it is, to adapt itself to a clumsy currency, and the consequences are naught but loss, setbacks, if not panic and revulsion. Let me, however, not be misunderstood. Elasticity must be the prime quality

of any credit currency, more so even in its contracting than in its expansive possibilities. The seed for financial trouble is not laid in times like the present, when money is scarce and financial accommodation difficult to obtain. Financial difficulties are bred when money is superabundant, when with existing laws and prevailing methods the Banks are unable to withdraw their circulating notes, though they may not have the least use for them, while at the same time, Government deposits are retained by the Banks who have no good motive to return these, as they cost nothing. It is in such times of choked money supplies that unlendable funds become employed for the promotion of every kind of illegitimate enterprise, from which it is found impossible to withdraw them when they become needed for the legitimate requirements of commerce and trade. Against these evils currency reform and reform of Treasury methods are to protect us, and because of this our first care in creating a credit currency should be to make it thoroughly responsive not only to the requirements of commerce and trade, but equally responsive to any cessation of such requirement. A circulating medium increased beyond legitimate use will be certain to, sooner or later, drive out gold, the retention of which should be guarded by all legitimate means, for no credit currency can remain sound unless it bears the proper proportion to the basic money, needed for its ultimate redemption.

Since I am to some extent responsible for the present agitation for Currency Reform I feel it the more as a duty to warn against anything in the way of a credit currency which may bring evils beyond the benefits which it is sought to obtain, evils which can readily be forestalled if wise and unselfish counsel prevails in the final shaping of the plans, which it is hoped can before long receive the sanction of law.

This is the age of reform, and the question appears to be, what reform measure is, for the time being, to have the

precedence. Our great President, if he had entirely his way, would not only eliminate all combinations and Trusts, but prevent moreover large accumulations of individual wealth. There is so much to be said on this that I shall not venture to enter upon a discussion of this large subject this evening, though I am free to aver that reasonable legislation, properly applied, may prove a safety valve, which the possessors of wealth should welcome. A progressive income-tax, even if it needs a constitutional amendment to make its imposition possible; a tariff enacted by the friends of a tariff, honestly protecting industries needing protection, without resulting in the building up of large fortunes for the few at the cost of the many; an immigration law, keeping the country wide open to those who, driven out of their native country by unbearable conditions, come to found new existences within our borders, and as to whom the law should seek to limit the influx into the too greatly overcrowded North Atlantic seaport towns and to better open, if that be practicable, the Gulf ports, so that the bulk of the immigration shall be made to flow into the great American "Hinterland" which needs it—are some of the measures which should claim the earnest consideration and support of representatives of the substantial interests of the country.

But with all of this we want not too much paternal government. Nothing is likely to become more destructive to the weal of the country and its institutions than the tendency which is making itself felt that Government assume functions properly belonging to the individual. To seek the panacea for corporate and other evils in a transfer to Government, for instance, through Governmental Railroad Ownership or Municipal operation of public utilities, affairs which, however large, belong to and are best developed by individual enterprise, would not alone bring forth a most dangerous and corrupting centralization of power, far more dangerous in ultimate demoralizing effect than the worst

evils corporation abuse can produce, but would moreover mean the suppression of and retrogression in individual development of mind, energy and ambition, in fact, of almost all the qualities which have made us great and prosperous as a people, and have made it possible that as a Nation we steadily come nearer the fulfillment of our manifest destiny. It is perfectly correct and necessary that police power, which means the right to control an inherent function of all government, be extended to the fullest over the corporation of every sort and nature, so as to compel strict compliance with the law; that this is quite sufficient is becoming more and more evident by the rapid progress made in the direction of governmental control through which prevention of corporate abuse is rapidly being attained. There is, however, in itself nothing threatening in large railroad systems or industrial corporations. Large systems can be far better and more effectively controlled and be held to give more efficient service than a number of small concerns. We would, for instance, not wish to return to the telegraph companies of former years, instead of the two great systems which have succeeded them, nor in our cities again accept the many independent traction lines for the single system into which these have become merged in most municipalities.

I am afraid I have drifted from my subject, but the temptation is great, upon an opportunity like this, to discuss without reserve some of the many reform problems which agitate the public so deeply at the present time.

The fact is not to be ignored that in all sections of the country the public mind is laboring under excitement, promoted perhaps artificially and unnecessarily to too great an extent. It cannot be doubted that in due time all the shortcomings and abuses which mighty economic forces and new conditions have brought forth will work their own remedy and adjustment; it cannot all be done by one man, however forcible, well-meaning and great, nor under one administration.

"The world has grown old,
And again it grows young,
And the hope for improvement
Is still its song."

You men of this Great Middle West, who stand between the old but by no means effete spirit of the East and the healthy, even if impulsive, new American spirit, which finds its nourishment so largely to the west of you, can do much to unite all the warring elements, so that the reform demanded in so many directions shall be determined by wise and sound counsel, rather than by passion, before it is permitted to take the form of law. I doubt not, your influence will be thus exercised for the good of our common country.

END OF
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